

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DIVISION OF CREDIT UNIONS

NEWSLETTER

Volume 1, Number 10 December 3, 1999

DIRECTOR TO MEET WITH CREDIT UNIONS

Four meetings have been scheduled for credit union officials to meet with the Director of the Division of Credit Unions. The purpose of the meetings is to answer questions regarding the Credit Union Commission's field of membership (FOM) rules, the application process, and any other topics. Credit unions are requested to review the FOM expansion application that is on the Division's internet home page <http://www.ecodev.state.mo.us/cu/> and be prepared to present ideas and suggestions on how the form can be improved. The dates, times, and locations of meetings are:

TIME AND DATE	LOCATION
Wednesday January 12, 2000 2 to 4 PM	St. Louis Sheraton Plaza Hotel 191 West Port Plaza (314) 8781500
Tuesday January 18, 2000 2 to 4 PM	Jefferson City Division of Professional Registration 3605 Missouri Blvd. Jefferson City, Mo. 65109, (573) 751-0293.
Wednesday January 19, 2000 2 to 4 PM	Kansas City Midwest United Credit Union 1800 Outer Road Blue Springs, MO 64015 (816) 2281800
Thursday January 20, 2000 2 to 4 PM	Springfield Postal Federal Community Credit Union 1770 W. Sunset Springfield, MO 65807 (417) 8871983

No reservations are necessary. To confirm that a meeting will still be held, in the event of inclement weather, call the Division of Credit Unions at (573) 751-3419 on the date of the meeting.

CREDIT UNION COMMISSION HOLDS WORK SESSION

The Credit Union Commission met on November 19th to develop criteria that will be considered when a credit union applies for an exemption from the limitations on groups. An exemption is necessary if the proposed new group has more than 3,000 potential members. Commission members Bill Humpfer, Sharon Ichord, Lori Levine, Cathy Stroud and Pat Yokley; Becky Kilpatrick from the Department of Economic Development, Christie Kincannon from the Attorney General's Office, and John P. Smith, David Bohrer, and Rob Berry from the Division of Credit Unions participated in the meeting. Also in attendance were Richard Orr of Central Missouri Community Credit Union and Kari Greathouse and Mike Winter from the Missouri Credit Union System. The Commission will be considering a proposed rule that will establish the criteria groups must meet in order to be granted an exemption. The Commission will meet by conference call on December 9th to consider the proposed rule and to consider a request for an exemption from Central Missouri Community Credit Union. Central Missouri Community Credit Union has filed a field of membership expansion request to add those who live or work in the counties of Lafayette, Benton, Henry and Saline.

If the Commission approves the exemption requested by Central Missouri Community Credit Union, the Director of the Division of Credit Unions will then approve or deny the actual field of membership expansion request.

The Commission's next quarterly meeting is scheduled for 10:30 AM, February 3, 2000.

FIELD OF MEMBERSHIP EXPANSION CONDITIONALLY APPROVED

Pursuant to RSMo 370.081(4), the Director of the Division of Credit Unions on November 16th conditionally approved the addition of St. Louis Catholic Church and St. Agnes Catholic Church to the field of membership of Catholic Family Credit Union. The decision will be published in the January 3, 2000 edition of the Missouri Register. Once published, a fifteen-day appeal period must expire prior to the final approval being issued.

DISCLOSURE OF CAMEL BEGINS WITH THE NEW MILLENNIUM

Examiners will be disclosing CAMEL ratings to officials at joint conferences beginning January 1, 2000. CAMEL ratings are confidential and are not to be disclosed beyond the credit union official family. A description of the CAMEL rating system, as it will be used by the Division of Credit Unions, follows. Examiners will assign CAMEL ratings based on these definitions.

The CAMEL rating system is based upon an evaluation of five critical elements of a credit union's operations: Capital Adequacy, Asset Quality, Management, Earnings and Asset/Liability Management. This rating system is designed to take into account and reflect all significant financial and operational factors examiners assess in their evaluation of a credit union's performance. Credit unions are rated using a combination of financial ratios and examiner judgment.

Since the composite CAMEL rating is an indicator of the viability of a credit union, it is important that the examiner rate credit unions based on their performance in absolute terms rather than against peer averages or predetermined benchmarks. The examiner must use professional judgment and consider both qualitative and quantitative factors when analyzing a credit union's performance. Since numbers are often lagging indicators of a credit union's condition, the examiner must also conduct a qualitative analysis of current and projected operations when assigning CAMEL ratings.

Although the CAMEL composite rating should normally bear a close relationship to the component ratings, the examiner should not derive the composite rating merely by computing an arithmetic average of the component ratings. Following are general definitions the examiner

should use for assigning the credit union's CAMEL composite rating:

Rating 1 - Indicates strong performance that consistently provides for safe and sound operations. The historical trend and projections for key performance measures are consistently positive. Credit unions in this group are resistant to external economic and financial disturbances and capable of withstanding the unexpected actions of business conditions more ably than credit unions with a lower composite rating. Such institutions give no cause for supervisory concern.

Rating 2 - Reflects satisfactory performance that consistently provides for safe and sound operations. Both historical and projected key performance measures should generally be positive with any exceptions being those that do not directly affect safe and sound operations. Credit unions in this group are stable and able to withstand business fluctuations quite well; however, areas of weakness can be seen which could develop into conditions of greater concern. The supervisory response is limited to the extent that minor adjustments are resolved in the normal course of business and that operations continue to be satisfactory.

Rating 3 - Represents performance that is flawed to some degree and is of supervisory concern. Performance is marginal. Both historical and projected key performance measures may generally be flat or negative to the extent that safe and sound operations may be adversely affected. Credit unions in this group are only nominally resistant to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting certain identifiable areas of weakness. Overall strength and financial capacity is present so as to make failure only a remote probability. Such credit unions require more than normal supervisory attention to address deficiencies.

Rating 4 - Refers to poor performance that is of serious supervisory concern. Key performance measures are likely to be negative. Such performance, if left unchecked, would be expected to lead to conditions that could threaten the viability of the credit union. A high potential for failure is present but is not yet imminent or pronounced. Credit unions in this group require close supervisory attention.

Rating 5 - Considered unsatisfactory performance that is critically deficient and in need of immediate remedial attention. Such performance, by itself or in combination with other weaknesses, directly impairs the viability of the credit union. Credit unions in this group have a high probability of failure and will likely require liquidation and

the payoff of shareholders, or some other form of emergency assistance, merger, or acquisition.

Examiners will have the optional use of assigning plus (+) or minus (-) CAMEL ratings to signify improving or declining trends.

Financial ratios will continue to be provided for the capital, asset quality, earnings, and asset/liability management components to guide examiners in assigning the appropriate ratings. It is important that examiners rate credit unions based on their performance in absolute terms rather than against national peer averages or predetermined benchmarks. Peer averages or benchmarks do not necessarily reflect credit unions that are being operated in a safe and sound manner. The CAMEL ratings should accurately reflect the condition of the credit union regardless of peer performance.

Y2K FINAL PREPARATIONS

As the millennium draws closer the Division will be taking a number of reporting steps concerning the status of credit unions. First you will be contacted shortly by your examiner to determine your credit union's plans for the roll-over weekend. Data systems must be brought up and tested after December 31, 1999, and prior to January 3, 2000. Of course we anticipate most credit unions will test early on January 1st in case something does not work. The results of this test will be conveyed to the examiner via whatever prearranged method has been established.

If problems do occur credit unions must contact their examiner or this office. The Division office will be staffed and/or the phones monitored on a continuous basis beginning 8 AM December 31, 1999, until 5 PM January 3, 1999. We may be reached at the following numbers (573) 751-3419, FAX (573) 751-6834, E-mail cu@mail.state.mo.us. Should credit unions have a need for an extraordinary cash delivery please contact this office and we will assist the credit union in arranging additional security while funds are in transit.

The year-end is not expected to produce any situations that can not be handled in a routine manner. If a credit union is experiencing some difficulty though it is required they notify the Division office for assistance.

FROM THE DIRECTOR

The Credit Union Commission's final rules, implementing House Bill 1323, have been adopted and submitted to the Missouri Secretary of State for publication. These rules will become effective January 30, 2000.

A rule establishing the criteria groups must meet in order to be granted an exemption from limitations on groups is in the process of being written. The Commission has indicated that they will follow the provisions of RSMo 370.081 (2)(1) when considering requests for exemptions, until a final rule addressing exemptions is adopted.

I ask credit union officials to meet with me at one of the four meetings scheduled for January. This is your opportunity to share your suggestions and concerns with me. The meetings will also be my opportunity to describe the field of membership rules and the application process and to receive your suggestions on how the field of membership expansion process may be improved.

Have a happy holiday season.

John P. Smith, Director